

Port of Tauranga Limited Annual Meeting 17 October 2018

David Pilkington, Chairman

Good afternoon Ladies and Gentlemen and welcome to this year's Annual Meeting of Shareholders of Port of Tauranga Limited, being held for the first time here at ASB Baypark.

I am David Pilkington and I am the Chair of Port of Tauranga Limited.

I am pleased to present my overview of Port of Tauranga's performance over the past year.

We remain New Zealand's largest, fastest growing and most productive port.

A buoyant New Zealand economy saw cargo volumes increase 10.2% over the year, to nearly 24.5 million tonnes of cargo. We handled almost 1.2 million TEUs, an 8.9% increase on the previous year, and 40% of all containers handled in New Zealand.

Revenue increased 10.9% to \$283.7 million, producing a record Group Net Profit After Tax of \$94.3 million - a 13% improvement on the previous year.

Our hub port strategy is gaining momentum. Transshipment, where containers are transferred from one service to another at Tauranga, has grown 23.3% in the past year.

These results are a direct consequence of our expansion programme to accommodate larger vessels. Our six year investment in building capacity was completed in 2016, and the effect on container ship sizes was almost immediate.

Australian and New Zealand shippers are now taking advantage of our fast and efficient connections to North Asia, North America and South America and transhipped containers now make up around a quarter of total TEUs.

And it is not just larger container vessels that are calling. We are seeing bigger bulk vessels too, as well as larger cruise ships.

The mega cruise ship *Ovation of the Seas* brought in 4,900 passengers three times last summer, and she will call seven times this coming summer.

Looking at the Port of Tauranga Group as a whole, we saw generally good results from our associate and subsidiary companies over the year.

Quality Marshalling is doing well in diversifying its business in niche cargo handling and container services. QM has managed to secure the contracts to operate our container terminal's straddle carrier maintenance workshop, as well as refrigerated container monitoring.



We are building a new warehouse for Coda Group at our MetroPort Christchurch inland freight hub at Rolleston. Coda will use this new facility to handle Westland Milk's dairy exports.

PrimePort Timaru had a good year in terms of cargo volumes, which increased 19% overall. However, repair and maintenance costs hit PrimePort's bottom line and will continue to do so for some time as we continue to upgrade the infrastructure.

Timaru Container Terminal volumes increased 5% to a new record of more than 89,000 TEUs.

And Northport also saw increased traffic, particularly forest product exports continuing to grow. Our fledgling container operations have also showed growth following the decision by MSC to extend their seasonal service.

Our subsidiary and associate company earnings increased 11.9% on the previous year to \$16.4 million.

We are pleased to have paid ordinary dividends for the year of 12.7 cents per share, a 13.4% increase on the previous year. We also paid the third of four special dividends to shareholders as part of our capital restructure programme.

New Zealand's port sector continues to face challenges, particularly around the economics of capital investment.

The Office of the Auditor-General recently wrote to port company Chairs and CEOs, raising a number of issues identified in its annual audit of the sector. It found considerable variation in port companies' approach to valuations. We remain firmly of the view that many ports are making uneconomic investment decisions with some earning less than 2% Return on Equity.

We strongly support the Auditor-General's advice to port companies to use fair value, based on the expected cash flows to be generated.

In Port of Tauranga's case, we seek a minimum return of 8.5% after tax on any significant capital investments.

I would like to thank our Chief Executive, Mark Cairns, and his team for another outstanding year. We also congratulate our Chief Financial Officer, Steve Gray, who was recognised in the 2017 Deloitte Top 200 Business Awards, winning the CFO of the Year gong.

We are proud of our strong and productive relationships with our staff, and their unions. However, we do have concerns about the Government's planned changes to the industrial relations framework. Specifically, we oppose the repeal of the ability for employers to opt out of Multi Employer Collective Agreement negotiations. If the opt out provision is repealed, we fear industrial issues at one port will potentially lead to national strikes across the total sector, something we have not experienced since the '70s.

We are still hopeful that the Coalition Government will heed the concerns expressed by Business New Zealand and international conventions endorsing the voluntary nature of collective bargaining, and amend this portion of the Employment Relations Amendment Bill.

Health and safety has remained a priority in the past year and my fellow Directors and I have taken the opportunity to visit several of our operational sites to observe first hand and be briefed on safety-related strategies.



We have also undertaken an external audit of our health and safety practices to gauge our effectiveness at a Board and senior management level against best practice.

We are also endeavouring to replicate our progress in health and safety with our environmental performance. You will see environmental and social performance indicators feature more prominently in our reporting - such as our annual report this year - and Mark will outline some of our recent initiatives in this area. You can be assured that the Board takes our ongoing "licence to operate" and the future sustainability of our business very seriously.

I'll hand over to Mark now to share some of the operational highlights for the year as well as the outlook for the 2019 financial year and beyond.

